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THE TRADE POLICY OF EAST ASIA WIDER TERRITORY ECONOMY

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1. THE NEW THEORY OF EAST ASIA TRADE

East Asia wider territory economy at the present stage extends over the so-called Greater East Asia Co-prosperity Sphere and embraces many independent nations and colonies such as French Indo-China, the Netherlands East Indies and Thailand, with Japan, Manchoukuo and China as its centre. The foremost task of our policy of trade with these countries undoubtedly is to overcome the trade policy which has been carried on by the Western capitalistic nations. It is a well-known fact that the East Asia trade policy of the Western nations based, as it is, fundamentally on individualism, liberalism and profit-making, has been utilized as a means to maintain and perpetuate its own capitalism.

I shall not here take up the historical fact that the accumulation of capital by means of East Asia trade since the time of the Middle Ages proved the starting point of English capitalism. But I do wish to stress the fact that the major portion of the important raw materials and food-stuff necessary for the development and continuation of

Western capitalism in general, had to be sought in East Asia. It may be truly said that our East Asia has been the veritable supply department of Western capitalism for the past several centuries.

Moreover, the East Asia trade of Western nations has been carried on between capitalistic nations and non-capitalistic nations and between two sets of countries advanced and backward in respect to capitalism. For this reason, although in outward appearance it may have seemed to be an equitable economic transaction, in substance there was no reason that it could be such, with the result that, on one hand, it enabled the Western nations to accumulate a large wealth, and, on the other it rather increased the poverty of the countries of East Asia. Moreover, there is another important fact that in the background of this East Asia trade, there lay a constant relation of loaning and borrowing and trade was carried on both as its result and cause. In other words, with the accumulation of capital by the Western nations, there was an increasing surplus of capital, thereby necessitating the export of capital. Thus, East Asia came to be chosen as the export market for capital, and both export as a transformed loaning of capital and import as a transformed paying of interest, came to assume an important part of East Asia trade.

This advance of Western capital in East Asia has been inevitably accompanied by the advance of its political power in the same region, with the result of the transformation of East Asia into a number of colonies and semi-colonies. This fact meant that, although in the political aspect and external appearance East Asia has been supported by the Western nations, the region has been rather supporting these nations, economically and in substance, making them dependent upon the East Asia countries.

Thus, the new trade policy of East Asia should aim at overcoming the egoistic policy of Western capitalism. The whole of East Asia should endeavour to emancipate itself from the yoke of Western capitalism. This fundamentally

means the securing of independence for the East Asia colonies, but when viewed from the real trade policy, that object would be realized if independence be secured in the trade policy of East Asia colonies. It has been recently reported that France has given recognition of autonomy in the tariff of French Indo-China. Now, if similar tariff recognition should be given to all other East Asia colonies, it could be utilized for the benefit of the colonies themselves and their trade will be greatly improved.

For our country which wishes to establish a new order within the Greater East Asia co-prosperity sphere, it is necessary to grasp firmly the fundamental conception of East Asia trade from the standpoint of the proposed new order. Unless we do this, we would be exposed to the danger of committing the same mistake with the Western countries and might be tempted to establish a colonial trade of our own, even though we might have succeeded in driving out Western capitalism from the East Asia sphere. I have here no leisure to dwell at length on the conception of a new order in East Asia, and I must be content with its brief presentation. At any rate this much is certain that, should Japan adopt her trade policy and carry it out merely from her own interests, she should be exposed to the danger of committing the same blunder with Western capitalism. On the contrary, we should firmly establish our trade policy from the synthetic standpoint of entire East Asia and for the economic development of the whole area. If we should attempt to take the stand of reciprocal interests or collective interests under the principle of coöperative structure, there would be actual cases in which collision of real interests would be unavoidable, and there would be the danger of leading to disputes and disruption in the end. On the other hand, under the principle of synthetic structure, each of its members should transcend its own interests in adopting the East Asia trade policy under a synthetic planning and for the synthetic development of the entire territory, in which each member should execute its own allotted function.

In the light of the above state of affairs, it is clear that trade control and trade planning both of which are of recent development, would be insufficient to regulate the future trade policy of East Asia, so long as they have developed merely as the object of free trade. True, the future East Asia trade should advance in the direction of controlled or planned trade. It should be noted, however, that such trade forms have been planned out and enforced from the standpoint of self-interests for individual States, but this should not be so in the future. Our future East Asia trade, in its actual measures, will assume, as I shall explain hereafter, such forms as the barter system, or the quota system or the license system, all under reciprocal agreements, or various clearing systems under exchange clearing agreements. These are the new trade policies which have been adopted by various European countries. Although we should adopt these policies in our future East Asia trade, it is imperative that we should discard the egoistic ideas of Western nations, and carry them out according to the synthetic principle of the new order in East Asia and in the interests of the whole territory.

2. THE PROMOTION OF TRADE AGREEMENTS

The first task of East Asia trade policy is to conclude trade agreements among the members of the region. For, by far the most important characteristic of contemporary trade is that such agreements are concluded among the nations concerned according to which individual traders carry on trade, instead of carrying on their free trade activities as they had hitherto done.

Trade agreements which are public compacts among States are different both in significance and content from treaties of commerce or commercial agreements of former times. First in its historical signification whereas the treaty of commerce came into existence during the period of transition between medieval controlled trade and modern free

trade, the trade agreement came into being during the period of transition between modern free trade and modern controlled trade. Secondly, whereas the economic or trade provisions of the treaty of commerce were at their most concerned with tariff agreement, the important substance of the trade agreement concerns trade quantities, as in the case of the Japan-India trade agreement, although it may also include a tariff agreement. For instance, this agreement contains a provision for Japan's importation of 1,500,000 bales of Indian raw cotton in exchange for her exportation thereto of 400,000,000 yards of cotton textile as the maximum amounts, and this agreement is accompanied by a detailed stipulation concerning the quantities of the goods concerned. Thirdly, another characteristic of trade agreements lies in their being specific. True, the treaty of commerce is also a specific agreement between one country and another, but in many cases it contains the so-called most-favoured nations clause by which the benefit provided in the treaty is extended to nations other than the signatories. On the contrary, trade agreements provide no such clause, and contain stipulations which apply exclusively to the signatories. Moreover, since quantity stipulations contained in trade agreements provide for definite trade quantities of individual commodities, they are highly specific also in this respect. Again, whereas the treaty of commerce is on long terms, the periods of trade agreements are very short, usually as brief as less than one year. In other words, trade agreements are specific also in their time element. We may, therefore, say that the chief characteristic of trade agreement lies in their being highly specific in respect to international relations involved, commodities traded and time element contained.

This being so, one may at first blush for fear that our East Asia trade policy may not possess the synthetic nature required for the welfare of the entire territory, since it will be bound to be highly specific. However, a deeper analysis will show that such fear is unwarranted. For, although each trade agreement may be a specific stipulation between

two nations, it will stand on a single thorough-going principle for the whole sphere of East Asia. Moreover, trade agreements will be quantity stipulations based on the synthetic planning for the entire area. All agreements will be concluded among all the countries of East Asia, radiating, as it were, from say Japan, as the centre to all other nations. This point is highly important. Let us take the case of a trade agreement between Japan and French Indo-China, for example. Our country should be prepared preceedingly with a general outline of planned economy and of planned trade for the entire sphere of East Asia, and having done this we should proceed to conclude a quantitative trade agreement with French Indo-China as one branch of the East Asia economic sphere. True, in actual practice it would be almost impossible to conclude such a trade agreement as would be ideally in harmony with the general East Asia trade program. But at any rate we should attempt to proceed towards the gradual revision of the agreement so that this ideal object may be attained in the future. If trade agreements should be concluded at random as the circumstances of times demand without any insight into the object and necessities of the entire sphere, there would inevitably arise discrepancies and collisions among the different members and thus there would be the danger of confusion in their trade.

Actually speaking, steps should be taken to promote the conclusion of specific trade agreements between Japan, on one hand and Manchoukuo, China, French Indo-China, Netherlands East Indies and Thailand, on the other hand. The question as to with which of these countries we should first conclude a trade agreement will be largely decided by real circumstances, especially those of politico-economic nature, and there is no theoretical issue involved. However, in actual practice, there are many cases in which the initiative for concluding such agreements depend on the political conditions of any two countries. Viewed from this standpoint, the members of the East Asia economic sphere

in the present stage may be divided into two groups...Japan, Manchoukuo and China in one group and French Indo-China, the Netherlands East Indies and Thailand, in the other group. This is because these two groups markedly differ from one another in respect to their political conditions.

The political conditions of Japan, Manchoukuo and China are advantageous to the conclusion of mutual trade agreements. Whether it be the Japanese-Manchoukuo trade agreement or the Japanese-Chinese trade agreement, it could be brought into being at once, if the parties concerned should so desire. And I confess that I cannot understand why no efforts have been made along this line up to the present. The fact is that the efforts which so far have been made are unilateral. It is only Japan which has been carrying on the policy of restricting its export and of encouraging its import in trade with Manchoukuo, Kwangtung, Leased Territory and China during recent years. It should be noted that no success has been made by this policy because it has been a one-sided Japanese policy instead of a mutual policy based on co-operation by the other parties. Trade agreements, on the other hand, aim at attaining the desired end through mutual co-operation and efforts.

Our political relations with French Indo-China, the Netherlands East Indies and Thailand have been rather delicate, although a measure of improvement has been made therein. Both French Indo-China and the Netherlands East Indies are European colonies, while Thailand, though an independent nation, has been placed in the midst of complicated international politics. Under such circumstances, the conclusion of trade agreements between Japan and these countries would not be so simple as in the case of our relations with Manchoukuo and China. It is the highest ideal that Thailand maintain her free actions as an independent nation and that both French Indo-China and the Netherlands East Indies acquire the status of full-fledged independent countries. However, in actual practice no such ideal condition is necessary. It is sufficient that these colonies maintain

independence in their trade policies, in order to enable the conclusion of trade agreements with them. Both the Netherlands and France being in their present plight in the European conflict, it would not be a difficult task for them to entrust the trade policies of their respective colonies to their colonial governors. Although the formal sanction of their home governments may be required, in actuality the autonomy of their colonies will have to be recognized. The negotiations now under way between Japan and French Indo-China should aim at the conclusion of a trade agreement between the two countries. If the recent report that the autonomy of French Indo-China has been recognized by its home government be true, a very favourable condition for the conclusion of a trade agreement has, indeed, presented itself. Again, the recent despatching of a Japanese delegation to the Netherlands East Indies should culminate in the conclusion of a trade pact with that country; while our mediation in the present boundary dispute between French Indo-China and Thailand should lead to a trade agreement with the latter country. Thus, it is imperative that our nation should conclude trade agreements with the countries of East Asia and thereby make the start for establishing the East Asia co-prosperity sphere. We are favoured with an excellent opportunity for realizing our ideal policy.

3. THE SUBSTANCE OF TRADE AGREEMENTS

It is not permissible here to set forth the concrete substance, especially figures, of trade agreements which our country should conclude with the other members of the East Asia economic sphere as speedily as possible, and I must be content with their general and abstract substances.

The principal substance of trade agreements concerns itself with tariff and the quantities of commodities. The first object of tariff agreements is to let each party abolish its discriminatory tariff. Now in the case of Manchoukuo, there is no tariff problem because that country has several

times revised its tariff since its national foundation; but the Chinese tariff contains many discriminatory points against us which have been inserted since 1931 for the purpose of executing its anti-Japanese policy. The tariffs of French Indo-China and of the Netherlands East Indies also contain discriminatory provisions of extreme nature, their object being to give special privileges to the goods of their home countries. The abolition or alleviation of this discrimination should be speedily accomplished. Their home countries in Europe are in such a condition as makes it impossible for them to supply necessary goods to their colonies in East Asia. It is only our Japanese goods that can save their colonies from their condition of extreme scarcity, so that it is a matter of paramount importance for them rather than for us, that tariff discrimination against our commodities should be abolished as speedily as possible. True, it is unthinkable for our country to encourage the free export of our goods at present, because we do not have excess goods such as we had at the time of the financial depression, and in view of the existing condition of commodities and labour and of the decreased necessity for acquiring foreign currencies. Since imports as well as exports should be well planned out at present, trade agreements should not be only tariff stipulations.

Quantity stipulations form an important and characteristic portion of trade agreements. Trade agreements regulate individual goods specifically, since they fix the quantities of trade commodities between any two countries. In actuality, however, this fixing is limited to several important commodities. For instance, the trade agreement between Japan and French Indo-China stipulates the quantities of only raw cotton textile while the Japanese-Australian trade agreement only provides the quantities of wool import and cotton textile and rayon tissue export. I shall not here take up specifically the commodities and their quantities to be contained in trade agreements to be stipulated in East Asia wider territory economy. However, theoretically it may be said that we

should first examine the principal imports and exports which are necessary for a given country, and then examine our own imports and exports in trade with that country, and fix their quantities from the standpoint of both countries. Of course, as I have already stated such a trade agreement should be preceded by a synthetic planning for the trade of the entire sphere of East Asia, and specific trade agreements should be concluded within this plan and should be in harmony with it and as part of it.

As a result of such quantity trade agreements there is formed the so-called barter system. For instance, rice and coal of French Indo-China are traded with cotton textiles and general goods of Japan. The most important part of trade agreements consists in the formation of the barter system. But the term "barter system" should not be taken in its literary sense, for the modern barter system does not mean an exchange of goods with goods. On the contrary, the goods traded are evaluated in currency and their accounts are settled individually by means of exchange and other methods. Consequently, consideration should be given not only to quantity relations but also to price relations, in concluding such trade agreements. Unless this be done, there would be the danger of price inequalities in trade agreements concluded. Since each country within East Asia wider territory economy or East Asia co-prosperity sphere is a full-fledged independent nation, international debit and debt or international accounts will continue to exist and their balance should be the object of constant consideration.

Let us next consider what relation the substance of trade agreements will bear to the quota system. As is well known, the quota system is theoretically practiced as a unilateral deed by one country against another and is not a mutual act, although it may be carried on with the understanding of the party concerned. Thus, in theory the quota system has no direct relation with the substance of trade agreements, though in actuality there is a close relation between the two. Let us suppose Japan wishes to conclude

a trade agreement with the Netherlands East Indies which is enforcing a rigid import quota system. What will be the outcome of the relation between the two? Undoubtedly, complicated consequences will follow. Theoretically speaking, a nation's import quota or export quota should be determined *a priori* according to its national economy or its trade policy...which should be undoubtedly included in the synthetic planning of the entire East Asia...and that nation's trade agreements with others can be concluded within the limits of the quota system. Of course, the converse is possible, and a nation's quota system may be revised as a result of the conclusion of a trade agreement. Theoretically, however, the quota system precedes and the trade agreement follows. By the quota system here I mean not only that which is enforced by law but also that which is adopted merely in planned trade and having no legal sanction. Supposing our cotton textile export is planned out, we should have a plan of export quotas for other nations and trade agreement with them would be concluded within those quotas. Again, supposing the Netherlands East Indies' cotton textile import is based on the quota system, trade agreements with other nations would have to be concluded within the quotas allotted. For this reason, the quota system rigidly enforced by law would often prove an impediment to the conclusion of trade agreements. Or, we may say that trade agreements would have the efficacy of tempering the evil effects of the self-centering egoistic quota system and would enliven the trade between any two countries.

A similar thing may be said also of the relation between trade agreements and the license system. Since the license system is also enforced by the one-sided will of a nation and permits some definite quantity of individual goods to be either imported or exported, trade agreements would have to be concluded within its limits. However, permission must be given to either the importation or exportation of some definite quantity of goods fixed by a trade agreement. In such a case, the license system would be only a formality

or would provide the basis of the permission. Supposing the Netherlands East Indies enforces the import license system, if a trade agreement is concluded with say Japan, that system would prove only a formality so long as the definite quantity of goods provided by the agreement is concerned. Unless this be so, the trade agreement would prove a scrap of paper.

Lastly, let us take up the link system a particular form of which has been enforced in our country, and see what relation the substance of trade agreement bear to it. Now, the barter which forms the substance of trade agreements is also a link system in its wide meaning, but in this case it links only the entire export of a nation's particular commodities with its entire import. On the other hand, the link system so-called links export with import specifically in each commercial transaction, and therein differs from the barter system. Again, whereas there is no territorial limitation to the link system, trade agreements or the barter system are limited to specific countries. For this reason, if trade agreements are to be rigidly enforced, a territorial link system for the commodities concerned should be established under them. Conversely, it may be said that trade agreements may be established over and above the existing link system as in our own case. However, some trade agreements may have such substance as would necessitate changes in the substance of the link system. Suppose, for instance, that a trade agreement has been concluded between our country and the Netherlands East Indies providing the importation of petroleum and the exportation of cotton textiles. The exportation of our cotton textiles may be linked to the importation of raw cotton from India as well as the importation of petroleum. The object of the link system being to assure the supply of raw materials for export commodities, trade agreements may exist side by side with it so long as they have the same object.

4. THE CONCLUSION OF CLEARING AGREEMENTS

There is another set of agreements that should be speedily concluded among the countries of East Asia together with trade agreements: clearing agreements so called. The clearing agreement is a new method of settling international trade accounts which has been carried on extensively in recent years among European nations with Germany as the centre. Until recently all trade whether free or protected or bartered, or under the quota or license system, was settled by means of exchange or the movement of other funds. In this sense, the old trade may be termed as exchange trade. But the new method of settlement which has made a speedy development in recent years in connection with the control of exchange enables the settlement of trade accounts without recourse to exchange or to the movement of cash or other funds. This method may be generally termed as the clearing trade system. There are developing many and various forms of this system but what I wish to propose herein as a concrete measure for the trade policy of East Asia may be called the clearing agreement system (Clearingsabkommen) or the exchange clearing system (Devisen Clearing).

Like the trade agreement, the clearing agreement may be also concluded between any two countries. It provides a particular method of settling the trade accounts between two countries without recourse to exchange, the model method being the book transfer by the central banks of the two countries. Supposing the clearing system is established between Japan and Manchoukuo, the Central Bank of Manchou and the Yokohama Specie Bank will be such banks. In each of these banks a special account of the other party is established. The importers of one country, say Japan will deposit the money for the payment of their imports at the Central Bank of Manchou, while the Japanese exporters will receive from the Yokohama Specie Bank the money for the payment of their exports. Similarly, the importers

of Manchoukuo will deposit their money with the Yokohama Specie Bank and its exporters will be paid by the Central Bank of Manchoukuo for their exports. Thus, the import funds of the two countries deposited are cancelled in the book of their central banks against the export funds paid out, and so long as the amounts of imports and exports are equal, the settlement will be completed. In case the amounts are unequal, the balance will remain on the books.

Now, as in the case of trade agreements, the most important factor to realize clearing agreements among the nations of East Asia will be the political relations between the parties concerned. Any country taking the initiative for concluding such agreements must take political relations into consideration. As has been already pointed out, the political relations among Japan, China and Manchoukuo are well suited for the conclusion of such agreements. It is possible for those countries to form such agreements right away if they so wish. Why is it then that we have made no effort to approach either Manchoukuo or China regarding such agreements? It is said that eighty per cent of Germany's trade in 1935 was settled by the clearing system and only twenty per cent by exchange. But our country has given no thought to any new method of settling our trade accounts, although we have been badly in need of foreign currencies and greatly anxious to improve our international accounts; and we have been settling our trade balance entirely by means of exchange and gold. We should have long ago concluded a clearing agreement with both Manchoukuo and China, as our political relations with them made such agreements more than possible till now.

As to French Indo-China, the Netherlands East Indies and Thailand, their international relations are not so simple, as I have already stated in connection with trade agreements. However, it should be noted that both trade agreements and clearing agreements being purely economic affairs, their conclusion would not be difficult only if these countries are empowered to conclude such agreements. Moreover, the

conclusion of a clearing agreement as a purely banking affair is possible. The financial agreement recently concluded between Japan and the Netherlands East Indies may be considered as a clearing agreement.

The Japanese-Netherlands East Indies financial agreement having the term of efficacy for one year starting from January 1, 1941 is not a public stipulation, it being a private agreement between the Yokohama Specie Bank and the Bank of Java. However, substantially and in its mechanism and function, the agreement has the same efficacy as a public clearing agreement. It is indeed a very important agreement ...so much so that it is an epoch-making event in the history of our trade policy. Although the trade of the Netherlands East Indies was settled by the dollar, the outbreak of the present European War has made the settlement of trade by means of the *yēn* and guilder possible. As an increasing export excess of large figures has been marking our trade with the Netherlands East Indies, the excess amount will remain in the Yokohama Specie Bank's special account with the Bank of Java. When this excess attains a definite amount, our country can turn the fund into the dollar. Conversely, since the Netherlands East Indies has a large amount of import excess, its amount remains in the Bank of Java's special account with the Yokohama Specie Bank as the *yēn* debt. In other words, the Yokohama Specie Bank will supply the needed *yēn* fund to the Bank of Java at any time the latter wishes. The exchange rate will remain at the par of 100 *yēn* for $43\frac{3}{4}$ guilders, but as a result of the above financial agreement, exchange itself has become extinct, as trade between the two countries is settled on the books of the Yokohama Specie Bank and of the Bank of Java.

If similar financial agreements should be concluded among all the members of East Asia, their trade could be settled without exchange or the movement of other funds, and a wholesale clearing trade will be developed for the entire area. It has been reported that many-sided clearing agreements have been extensively concluded among the

European nations following the outbreak of the present conflict. These agreements could be concluded under trade agreements without any contradiction. This is because, whereas the trade agreements stipulate the quantities of principal trade items between two nations, the clearing agreements provide only the method of settling the accounts of trade which is carried on according to the provisions of the former agreements. But there is one thing that should be noted in this connection: to bring about real efficacy for clearing agreements, the signatory nations must possess certain qualifications in their trade policies.

When the exchange control of any two countries has not yet attained a definite stage of development, the clearing agreement, if concluded, will not prove effective. If one country enforces the coercive exchange system while the other practices the free exchange system, the clearing agreement would prove a free agreement (*Freie Abkommen*) or a unilateral clearing agreement, as was the case with the Anglo-German agreement of August, 1934, and could not be expected to be effective. This is because, if the free market of exchange is allowed to exist, trade settlement practiced by private firms could not be concentrated under the clearing agreement. Thus, the high-degree exchange control under which all exchanges of the nation can be concentrated therein is a prerequisite for the success of the clearing agreement.

Although our exchange control has been strengthened in recent years, it has not attained the stage where exchanges can be concentrated in the Bank of Japan or the Yokohama Specie Bank. It was announced at the time of the conclusion of the financial agreement with the Netherlands East Indies that the relations between private firms and the Yokohama Specie Bank and other exchange banks would not be altered at all. This was because, first, the Yokohama Specie Bank has been in actual practice monopolizing the major portion of exchanges and, secondly, all exchanges through other exchange banks could be concentrated in

that bank by some way. At any rate, if some method of concentrating exchanges at some single place coercively is adopted, the clearing agreement could function successfully, even if private exchange banks are allowed to continue their business and if no monopoly or State management of exchange is adopted. This point should be given deliberate consideration, and appropriate mechanism and means should be accordingly instituted.

5. THE ESTABLISHMENT OF THE EAST ASIA LINK SYSTEM

Worldwide attention has been aroused because of the link system which has been adopted by Japan as a special characteristic of her wartime trade control method. Both the commodity link system and the special link system which have hitherto been practiced as well as the synthetic link system which, although drafted, was not put into practice, included no territorial limitation and made no territorial discrimination either in import or in export. However, trade with the *yen-bloc* territory was excluded from these system and they were applied only to the trade with third countries. Such a territorial limitation was common to all, in this sense.

It is high time that the East Asia link system was adopted for the entire territory of East Asia including the *yen-bloc* area, by either improving or expanding the existing link system. I shall not here take up the question of how to improve the link system in general. What is paramount is that we should extend the existing link system to the areas outside the *yen-bloc* territory for the purpose of meeting the need of the trade policy of East Asia. However, it should be noted that the existing link system cannot be extended in its unmodified form because of the prevailing circumstances. I believe that a separate territorial link system should be established first for the *yen-bloc* area and then for each of the countries of East Asia, and lastly the

East Asia link system for the entire territory should be established in the last stage.

Yen-bloc trade has proved a difficult question for many years since the establishment of Manchoukuo, and various measures have been adopted in order to settle this question but no successful solution has been reached so far. Recently we adopted a compensation system for overcoming the discrepancy arising from the low-price policy of Japan and the rising prices in Manchoukuo, but it is clear that such a fixed system is insufficient for adjusting price variations that are taking place constantly. In order to meet the existing deadlock a sliding scale system may be adopted instead of the fixed system so as to enable the automatic changes of compensation for the different degrees of price variations. Such a system, though ideal in theory will prove a difficult practical problem. We rather propose that an *yen-bloc* territorial link system should be adopted instead.

The link system may be generally considered as a special means of an import permit system which presupposes the limitation of import. Whether it be the commodity link system or the special link system, it is accompanied by a general import limitation, and when import permit is given to some particular commodities, exports are adopted as the basis of import permit and are linked thereto. In the case of the general import permit system, its basis is determined by such factors as the kinds of commodities, past record, or the prevailing international accounts. But in the case of the link system, the import permit is given on the basis of export, and therein is the main characteristic of the system.

But it is different with the *yen-bloc* territorial link system. In this case, unlike the ordinary link system, it is to be enforced as a kind of export permit system which presupposes export limitation. Limitation of exports to the *yen-bloc* area has been felt from early times due to the need of protecting foreign currencies and resources, and various measures have been proposed in order to solve the so-called *yen-bloc* export limitation problem, the compensation system

recently adopted being one of them. The last named has been intended to check exports and encourage imports, but has not been successful as yet so far as its results are concerned. As is well known, Japan's exports to the yen-bloc area have resulted in a stupendous amount of export excess which, however, does not bring in foreign currencies. For this reason, we should promote the imports from the yen-bloc area as much as possible. Therein lies sufficient ground for the establishment of an *yen-bloc* link system.

The *yen-bloc* link system is predicated on an export permit system for the area and the imports from the bloc territory are linked to it and are made the basis for the export permit. Of course, limitation must be made to the kinds of commodities imported or exported and permission cannot be made indiscriminately. Export commodities will be limited to those which are needed by the importing countries and which we can supply, while import commodities will be limited to those which we need and which they can supply. If the commodities are within this limitation, it will be sufficient and there will be no need of linking the imported raw materials to exports manufactured thereof as in the case of the commodity link system.

The territorial link system may also admit the export right system under which export is regarded as a right and also the import obligation system under which import is regarded as obligatory. It is clear from what has been stated that the stand of the territorial link system is opposed to the commodity link system which embodies the import right system and the export obligation system. In actual practice, however, there will be no necessity of adopting independently the export right system and the import obligation system, and both may be used in double and like a chain as in the case of the prevailing commodity link system.

Unlike the trade agreement or the clearing system, the link system may be practiced by a nation singly and as its unilateral act. Thus, our country may at once carry it out by our will without regard to political relations with other

countries of East Asia. However, consideration should be given to its relations with the aforementioned measures, trade agreements in particular. Supposing we have made trade agreements with other countries of East Asia, will there be any room for the adoption of the link system? I am of the opinion that the link system is the most effective and ideal measure for carrying out trade agreements as it will be the most precise method for supplementing such agreements. Suppose, for instance, that trade agreements have been concluded with some definite country regarding the principal commodities to be trade between the two countries and their quantities. Unless trade is under State management, it will be carried on in actual practice by individual enterprisers. For this reason, some measures must be adopted in order to making individual trade transactions conform to the quantities agreed upon. The link system will be by far the most effective of such measures. The import and export commodities which are linked by the trade agreements in exchange by two countries may be linked in allotment to individual transactions. In this sense, they are not contradictory to each other. On the contrary, both are supplementary to each other in function. The same thing may be said of the clearing agreement. The accounts of import or export trade carried on under the trade agreement and by means of the link system may be settled according to a definite method of clearing provided by the clearing agreement, and without the aid of exchange or the movement of other funds.

At the present stage of East Asia' economy, we should establish territorial link systems with the different nations of East Asia such as Manchoukuo, China, French Indo-China, the Netherlands East Indies and Thailand. The synthetic territorial link system for the entire sphere of East Asia must be studied as a future problem. What our nation wishes to secure from East Asia trade is to assure the importation of resources which are scarce in our own land. But what our traders wish from the same trade is along

the export line. These two should be linked together. Our country should let her traders import her necessary resources from the other parts of East Asia and their import business should be linked to their export business. In other words, our traders should be allowed to export in exchange with their imports. If this be done, even if the premium accompanied by the export right is not recognized, the profit accruing from export could be used in compensating the loss incurred in import, and it is clear that thus the import business will be encouraged. To what extent we should maintain export excess or to what extent we should keep the trade balance will be determined by how we fix the quantities of commodities in trade agreements and by what ratio we should adopt in the link between exports and imports.

6. THE FUTURE OF EAST ASIA TRADE

As concrete measures for the East Asia trade policy, we propose that we should promptly conclude trade and clearing agreements with other countries of East Asia and adopt territorial link systems in trade with these countries. Now, what will be the future of our East Asia trade when it has made new developments by means of these appropriate and effective measures? I am convinced that we shall make stupendous developments both in the quantities and qualities of our trade.

In the first place, our trade will undergo a remarkable quantitative development. Not only remarkable increases will be registered in the absolute quantities of trade volume, but also the relative trade will be expanded and ratio of East Asia trade to our total trade will be largely developed. Because, hitherto the trade policies of East Asia countries have been along the general trade tendency of the nations, namely, narrow autarchy of single-nation unit, their aim being self-sufficiency for individual nations; and their mutual trade in consequence has been unjustly oppressed and has

been marked by impotence. But in the proposed wider territory economy under the new order, self-sufficiency for the entire East Asia will be its object, and in consequence, the wall of autarchy of a single-nation unit will be broken through and the trade volume of each nation will be bound to increase. Moreover, the new policy of self-supply within the East Asia economic sphere will result in the transfer of the trade hitherto carried on with the third nations to the members of the sphere, and this will mean the quantitative increase of their trade volume. Although East Asia has a population of one billion souls which is one-half of mankind, its inhabitants have hitherto failed to constitute the major portion of the world market, because their purchasing power has been negligible. Thus, it is clear that there will be vast room left in reserve for future trade growth, consequent on the development of East Asia economy. Nowhere else in the world will be found any market so promising of future prosperity. It would not be a difficult task to increase the present trade volume of East Asia by several times within the next several years. We may anticipate that something like eighty per cent of our world trade will be that in East Asia, the remaining per cent that with the third nations in the West, the latter being a sort of our supplementary portion.

Secondly, not only the quantitative increase, but also a large qualitative expansion will be expected of the future East Asia trade. At any rate, free trade or protected trade as hitherto carried on will be conspicuous by its absence. Nor will controlled trade or planned trade hitherto carried on remain in its unmodified form in the future, because both were controlled or planned from the standpoint of single nations. True, the future East Asia trade should be also controlled and planned. But this should be done synthetically from the general standpoint of entire East Asia, instead of the individual nations therein. In other words, the future East Asia trade will be synthetically planned trade, as against the individually planned trade of the past.

This will give rise to the qualitative development of East Asia trade.

As I have already pointed out elsewhere, the future trade of East Asia will lose the characteristics of foreign trade and will gradually assume those of domestic commerce. For, the essential difference between foreign trade and domestic commerce, as a purely theoretical issue, is said to depend on whether a given trade is accompanied by the principle of comparative production costs, and this principle presupposes the absence of freedom in the international movement of capital and labour. If the movement of capital and labour is freely made, the absolute differences of production costs will give rise to division of labour as well as exchange; and thus foreign trade will become identified in substance with domestic commerce. Now, in the future trade of East Asia, both capital and labour therein will be almost the same as those in a single country, whenever there is such a necessity, and they will move under control and according to a definite plan; although their movement by no means will be absolutely free. Thus, there will be no remarkable difference between domestic commerce and foreign trade in this regard. Nor is it imaginable that the trade of East Asia will be subject to any other principle. The division of labour so-called or "the right man in the right place" in such a case will mean division of work according to the absolute differences of production cost, and the principle of comparative production costs no longer could be applied in its original form.

There are two earmarks which differentiate foreign trade from domestic commerce in actuality, but which now tend to disappear all together. One of them is the existence of tariff. Of course, it will probably happen in the distant future that tariff in East Asia will pass out of existence through the formation of a tariff alliance or tariff abolition. However, the tendency towards the alleviation or abolition of tariff is unmistakable. In this respect, too, foreign trade is gradually approaching domestic commerce. The second

earmark of foreign trade is foreign exchange. It is also showing a tendency to pass away as an institution.

I cannot here dwell at length on the exchange policy of East Asia economy. There is no doubt, however, that if reciprocal clearing agreements should be concluded at the present stage, there will be no longer any room for the existence of foreign exchange; though exchange rates will remain in their old rates. In this case, also, there will be this difference: constant exchange rates will prevail. Foreign trade as hitherto carried on was chiefly characterized by transactions which were made at constantly fluctuating rates. Now, if exchange rates should become constant, the stability of commerce could be maintained and foreign trade will thus approach domestic commerce, even though foreign exchange should remain as hitherto.

But in the later stages of development, when the so-called *yen bloc* has become expanded, there will be the par-link currency for the entire East Asia as in the case of the *yen-yuan par*; and there will be no room left for the existence of exchange rates. However, since the countries of East Asia are independent nations and as such will have the currencies of their own, the new currency cannot be regarded as a domestic money. But there will be no more exchange fluctuations nor exchange rates. When exchange itself has passed away as a result of the conclusion of clearing agreements, foreign trade will virtually become domestic commerce. However, in formality there will remain foreign trade which must be distinguished from domestic commerce. The trade under such conditions will be a sort of intermediate between foreign trade and domestic commerce, and the pure foreign trade will remain only in connection with the third nations.